The Money and Banking Mess

By Elbert O. Kelsey

This is the second half of another installment in The American Mercury's *reprints on money. The first half of this article appeared in the last issue.*

IT HAS BEEN well demonstrated that debt-money and fractional reserve banking are curses which blight the present fortunes and dim future hopes of the great majority of the American people. It has been declared also that the people should forget their differences on lesser matters and, uniting in one mighty "Rescue Party," elect a Congress of wise and dedicated men and women. That Congress could yet save the Republic and restore to us, in large measure at least, the liberties which we have been losing at an accelerating rate during the past 25 years. On the pages that follow we will outline proposals for legislative action which, if taken by what we have called a "dream-Congress," would have salutory consequences to the benefit of ourselves and our posterity.

We are going to assume (or "make believe," if you will) that our ideal Congress has been elected and sits in the Capitol. We offer three proposals which we think deserve most urgent consideration:

First: Immediate abolition of the Federal Income Tax.

Second: Restoration to every citizen of his undisputable right to own gold.

Third: Return to Congress its Constitutionally-granted right to administer the nation's money.

The right of our people to own gold can be restored in a single stroke by repealing the infamous New Deal statute which has forbidden it here for a quarter century. (Foreigners continue to have that right! Why not the U.S. taxpayer, if he wants to?)

Income Taxes Can Be Repealed

The Federal Income Tax can be uprooted simply by repealing the Act. Congress should then pass a Revenue Act in its stead which will be four-square with Article I, Section 2, Paragraph 3, of the Constitution: *"Representatives and direct taxes shall be apportioned among the several states which may be included within the union according to their respective numbers . . ."* Nothing could be clearer than

that language, and no system could better harmonize the *duties to bear taxes* with the *rights of representation* in government. A perfectly equitable Federal tax law could be written in two sentences, such as these: "Expenditures of the United States for the year ending ...., ..., 195.... are authorized in the aggregate sum of $........................., *a direct tax* is hereby levied upon the several States of the Union, each of which will pay to the Federal Treasury a sum equal to the same percentage of the total authorized Federal expenditure as each State's delegation in the House of Representatives is a percentage of the whole membership of that body."

Let the people of each sovereign State decide for themselves the matter of how and from whom they would levy and collect their proper share of the cost of administering the Federal Government. One incidental result of repeal of the Federal Income Tax would be a host of lawyers, accountants, "tax-experts," and Internal Revenue Bureaucrats out of jobs.

That also would be net gain for the people as a whole.

The task of our "imaginary" Congress in regaining its Constitutional right to administer the nation's money, though far more intricate and time-consuming, is no less the prerogative of Congress than our other proposals. As every schoolchild ought to know, Article I, Section 8, Paragraph 5 says "(Congress shall have power) to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures."

New Currency

First of all, in this direction, Congress should instruct the Treasury to prepare engravings and plates necessary to produce a new and distinctive paper currency and mint new and distinctive subsidiary coins (aluminum, stainless steel, or other metal of little intrinsic value). The new paper and metallic money would simply be called "United States Money" in it various denominations; would be legal tender for all debts, public and private; and would not be *"convertible" into anything!* Every piece of that new paper money would bear, in addition to the motto *"in God we trust,"* this pledge: *"So far as it lies within the power of the government of the United States, United States money shall at all times be issued and outstanding in an aggregate sum of* $.... .... *per capita of the population of the United States."* (The amount is now about $1,342 per capita.)

Congress next should enact a law which would make null, void and worthless all currently existing United States currency after such-and-such future date, giving owners of all present currency time enough to turn it in for exchange into new United States Money before the old becomes worthless. It would be necessary, of course, to widely publicize this impending change in money status domestically and in all foreign countries to prevent injustice being done to innocent holders of the old. It should not be overlooked also that our government would most certainly benefit from the fact that unpredictable amounts of old money never would be presented for exchange for the simple reason that while the books of the Treasury show currency which theoretically is "outstanding" there is no way of knowing how much of it has been hopelessly lost or accidentally destroyed. This "windfall" might be a pleasant byproduct of the operation, but it would be incidental to the major purpose, as now will be shown.

By far the greatest amounts of currency in circulation in the United States and abroad consist of $26.473 billions Federal Reserve Notes, which theoretically are secured by United States Gold Certificates issued by the Treasury against the gold the government has mausoleumed at Ft. Knox. This is gold

subject to the call of *all foreigners* who are able to get hold of dollars, but is barred from possession by resident citizens of the United States. Thus in issuing new United States Money for old, all direct gold claims foreigners have by virtue of their possession of Federal Reserve Notes would be extinguished. In a moment we will come back to this point, but there is a necessary intermediate step Congress would need to take.

Amending Federal Reserve Act

That step would be to amend the Federal Reserve Act (preparatory to its eventual repeal and liquidation of the Federal Reserve Banks) so as to vest in the Treasury, as an adjunct of Congress (and *no longer a department of the executive branch*) all powers now had by the Federal Reserve Board, and particularly power to set Federal Reserve Member Bank reserve requirements at any percentage of deposit liabilities which Congress directed, up to and including 100 percent.

The next step in the program would be for Congress to make it the law of the land that after a specified future date it would be a penitentiary offense for any individual, partnership, or corporation to represent itself as being a "bank" unless at all times it held unimpaired reserves in United States Money equal to 100 percent of deposit liabilities.

With those preliminary measures enacted, Congress could then go about finally cleaning up the "money mess." It will be helpful in picturing the unfolding of the "cleanup" to set down here certain pertinent figures:

U.S. Government direct debt: $275. billion; less $55. billion held by U.S. agencies such as Social Security, Postal Savings, etc.	$220.000 bil.
Gold held at Ft. Knox @ $35 per oz.	22.400 bil.
Total deposits all banks (except Fed. Res. Bank)	201.646 bil.
Currency in circulation outside Treasury and outside banks	30.554 bil.
Total deposits and currency ("Money Quantity")	232.200 bil.
U.S. Government bonds held by Fed. Res. Banks	23.525 bil.
U.S. Government bonds held by privately owned banks	65.640 bil.

Congress would direct the Treasury to announce that henceforth until further notice it would not buy or bid for gold at any price; and announce also that the gold at Ft. Knox would be sold to the highest bidders in new United States Money in a free gold market (to be operated under the supervision of the Treasury). The Ft. Knox gold would be cast into ingots of various weights, with weights and fineness certified on each ingot. While it is doubtful if all that gold could be offered without breaking the world gold price wide open, we will assume that it can be sold for $22.000 billion dollars. We further assume the Treasury receives that sum of currency, using it to retire an equivalent amount of U.S. debt now held by banks.

Buyers of the gold would have to use currency and bank deposits to pay for the gold purchases so, to prevent the Money Quantity from shrinking below the $232.200 billion starting figure, the Treasury, would pay back into circulation the currency it received, and redeposit United States Money in exchange for checks of the banks on which drawn, to pay for gold. Bank reserve requirements would simultaneously be raised

sufficiently to force the banks receiving these redeposits to immediately credit them 100 percent to reserve account on their books.

Following the assumed completion of the gold sale the affected figures would look like this:

Gold held at Fort Knox	Zero
Gold held by the public	$ 22.000 bil.
U.S. Government debt held by others than U.S.	198.000 bil.
U.S. Government debt held by Fed. Res. Banks	23.525 bil.
U.S. Government debt held by privately owned banks	43.640 bil.
Total deposits and currency ("Money Quantity") unchanged	232.200 bil.

The next step in "cleaning up the money mess" would be for the Treasury to issue another $67.165 billions of United States Money to the Federal Reserve banks and privately owned banks to retire all U.S. Government bonds yet remaining in banks hands. The Federal Reserve Banks could pay to System Member Banks the latters' deposits with them and thereupon be ready for revocation by Congress of their charters and final liquidation.

The Treasury would again raise each reserve requirements to sop up into reserves in the privately owned banks all of the United States Money they received in the return to them of their estwhile deposits with the Federal Reserve Banks.

The aftermath of the foregoing operation would show these results in the affected figures:

U.S. Government debt held by others than U.S. Agencies	$130.835 bil.
U.S. Government debt held by banks	Zero
Total deposits and currency ("Money Quantity") unchanged	232.200 bil.

At this stage of the "cleanup" the asset side of the balance sheet of the banking system would have only cash and non-government securities against deposit liabilities, which we are presuming remain at $201.646 billion. Since the objective is 100 percent money reserves, it is plain that the $201.646 billion is the cash target that will be needed. That means that another $136.006 billion of bank "assets" will have to be converted into United States Money before the 100 percent reserve target is reached. This will appear more clearly if illustrated. See box at bottom of page.

To accomplish the desired result, it will be necessary for the Treasury to see that $136.006 billion additional United States Money is made available to replace "Other loans and investments" when the banks receive payments for them as they are progressively liquidated under pressure of the necessity of having to get 100 percent cash reserves back of their deposit liabilities. This, of course, will have to be done gradually and the new money paid into the banks by the Treasury only as fast (*but no faster*) than necessary to keep Money Quantity on the $232.200 billion target figure. Ideally, the $136.006 billion of bank-owned assets would move into the ownership of individuals, insurance companies, corporations, and other non-banking lenders and investors to take the place of Government bonds they now own. By buying up and retiring the U.S. Government securities now held by this latter group of investors the Treasury, again using additional amounts of new United States Money, would acquire and cancel the last of the publicly owned debt of the Nation ($130.835 billion) *and we once more would be free from its curse.*

ASSETS		LIABILITIES	
U.S. Money (reserves)	$ 65.640 bil.	Deposit Liabilities	$201.646 bil.
Other loans and investments	136.006 bil.		
TOTAL	201.646 bil.	TOTAL	201.646 bil.

We now recapitulate the results of these proposals in terms of present figures ("Old Figures") as compared with the consequences ("New Figures") of the proposed action. (See chart below.)

If the American people will just rise up and elect themselves a Congress wise enough and forthright enough to enact the legislation which is needed to *rid the nation of the twin curses of debt-money and fractional reserve public banking,* they yet have time to rescue their once-proud Republic and redirect the destinies of themselves and their posterity back to the road of solvency. That is the road also to fulfillment of the dream of the great and good men and women who founded the Republic: *The greatest good for the greatest number of people.*

The steps proposed to be taken toward those salutary goals square exactly with the Constitution. Our present debt-money and fractional reserve public banking are in violent opposition to it.

There are some who say the proposed program is "inflationary." *Any competent and truthful person knows that it is nothing of the sort.* It merely acknowledges the *now-existing degree of inflation* which has been inflicted upon us in the first half of the twentieth century by an unholy alliance of clever schemers and well-meaning numbskulls.

We can no more undo the damage caused by the inflation than we can "un-burn" a house. But we *can put a stop to it here and now* if we will but muster the will and the wisdom to do so.

What are we waiting for?

	Old Figures *$ billions*	New Figures *$ billions*
U.S. Govt. Direct debt held by other than Government agencies	220.000	ZERO
Gold held by Government at Ft. Knox	22.000	ZERO
Gold held by public	ZERO	22.000
Total deposits in all banks	201.646	201.646
Money reserves held by banks against deposits	(†)	201.646
Money in circulation outside banks	30.554	30.554
"Money Quantity" (total bank deposits and currency)	232.200	232.200
Annual interest of U.S. debt	8,000 (apprx.)	ZERO

† This figure cannot be accurately computed because of the claims foreigners hold against Federal Reserve Banks and in turn, against the Ft. Knox gold: Actual "money" reserves, probably do not exceed $5,000 billion.

INDEPENDENCE DAY

INDEPENDENCE Day was never made a legal national holiday. Pennsylvania, in 1873, was the first state to declare this date a legal holiday. There is, however, a record of an earlier observance elsewhere. The citizens of New Bern, N.C., celebrated Independence Day on July 4 in 1778. Since Pennsylvania's action in 1873, all the states now proclaim July 4 a state holiday. (By Presidential proclamation, Thanksgiving Day is the only national legal holiday in the U.S.)